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No. 103

In the Supreme Court of the United States

OCTOBER TERM, 1930

HARRY F. WAITE, PETITIONER

v.

THE UNITED STATES

ON WRIT OF CERTIORARI TO THE COURT OF CLAIMS

BRIEF FOR THE UNITED STATES

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OPINION BELOW

The opinion of the Court of Claims (R. 22) holding that the petitioner's patent had been infringed is reported in 63 C. Cls. 438. The court's memorandum as to damages (R. 31) is reported in 69 C. Cls. 153, but its decision refusing to allow interest (R. 33) is not yet reported.

JURISDICTION

The judgment sought to be reviewed was entered on February 10, 1930. (R. 33.) A motion for new trial was overruled on April 7, 1930. (R. 33.)

The petition for certiorari was filed on May 7, 1930 (R. 33), and the writ was granted October 13, 1930 (R. 35). The jurisdiction of this Court is invoked under Section 3 (b) of the Act of February 13, 1925.

QUESTION PRESENTED

In determining "reasonable and entire compensation" recoverable under the Act of July 1, 1918, c. 114, 40 Stat. 704, by a patent owner against the United States for the use or manufacture by or for the United States of his invention, must interest be added to an allowance of profits which the patent owner would have received if the infringing devices had been purchased from him?

STATUTE INVOLVED

The Act of July 1, 1918, c. 114, 40 Stat. 704, 705, is set forth in the Appendix, *infra*, pp. 8–9.

STATEMENT

In 1920 letters patent were issued to the petitioner upon a transformer for the production of suitable currents for the operation of a Coolidge X-ray tube. (R. 10, 29.) In 1917 and 1918 the petitioner's company had sold to the United States transformers of two different grades on which it had realized an average profit of $59.42 per transformer. (R. 29, 30.) In 1921 and 1922 the Wappler Electric Company, at the request of the United States, manufactured and sold 101 similar transformers to the Government. (R. 28.) In a decision rendered May 2, 1927, the Court of Claims

held that the use of these transformers by the United States was an infringement of the petitioner's patents. (R. 22.) After further submission of the case as to the amount recoverable, the Court of Claims gave judgment for the petitioner for $6,001.42, representing the estimated profits of $59.42 per transformer lost by the petitioner because of the use by the United States of the Wappler transformers. (R. 32.) On February 25, 1930, the plaintiff filed a motion for a new trial contending that the court erred in not allowing interest from the date of the commencement of the use. (R. 33.) On April 7, 1930, the Court of Claims entered an order overruling the motion and refusing to award interest. (R. 33.)

The findings of fact do not show the existence of a fixed royalty or the determination of a reasonable royalty. There was a finding as to the actual profit realized by the contractor (R. 29), but this was not used as the measure of plaintiff's loss (R. 32). The court was of the opinion that the plaintiff would have been in a position to make sales to the Government if the infringement had not taken place (R. 32), and it accordingly based its judgment on an estimate of the profits lost by the plaintiff as a result of the infringement (R. 30).

ARGUMENT

The petitioner's claim for interest is predicated on the theory that by reason of the Act of July 1, 1918, c. 114, 40 Stat. 704, 705 (*infra*, pp. 8–9), the

infringement of his patent rights amounted to an appropriation of private property for public use as in eminent domain (*Crozier* v. *Krupp,* 224 U. S. 290) and that under various decisions of this Court, of which *Seaboard Air Line Ry.* v. *United States,* 261 U. S. 299, is a typical example, just compensation includes interest on the value of the property from the date of the taking.

In its memorandum acquiescing in the petition for certiorari, the Government said (p. 3):

> If the phrase "reasonable and entire compensation," as used in the Act of 1918, has the same meaning as the phrase "just compensation," as used in the Fifth Amendment of the Constitution, it would seem that the court should have allowed interest.

This statement was based on the prior decisions of this Court holding that interest was recoverable as part of the compensation required by the Fifth Amendment.

The applicability of this rule to cases involving infringement of patent rights by the United States has not been passed upon by this Court and it may well be that in patent cases interest should be allowed or disallowed in accordance with the rules governing recovery between private litigants. In order that the plaintiff be fully compensated, it is necessary that he recover at least the equivalent of what would be recoverable at law or in equity in a suit for infringement pursuant to R. S. 4921 or R. S. 4919.

In equity recovery may be had of the infringer's profits. Such profits are not liquidated until the court, or a master appointed by the court, has computed them. *Illinois Central R. R. Co.* v. *Turrill,* 110 U. S. 301; *Tilghman* v. *Proctor,* 125 U. S. 136; *Crosby Steam Gage & Value Co.* v. *Consolidated Safety Valve Co.,* 141 U. S. 441. Accordingly, interest is not added unless it appears that the infringement was deliberate and wanton. See *Metallic Rubber Tire Co.* v. *Hartford Rubber Works Co.,* 275 Fed. 315 (C. C. A. 2d).

Damages for infringement, recoverable either at law or in equity, are compensatory and have no relation to the defendant's gain. If such damages are computed on the basis of a fixed royalty for the use of the invention, interest from the date when the royalty was due is recoverable. *K. W. Ignition Company* v. *Temco Electric Motor Co.,* 283 Fed. 873 (C. C. A. 6th).

Interest is also included as a part of the damages, either as a matter of right or in the discretion of the court when damages are computed on the basis of a reasonable royalty. *B. F. Goodrich Company* v. *Consolidated Rubber Tire Co.,* 251 Fed. 617 (C. C. A. 7th); *Consolidated Rubber Tire Co.* v. *Diamond Rubber Co.,* 226 Fed. 455 (S. D. N. Y.), aff'd, 232 Fed. 475 (C. C. A. 2d); *Merrell Soule Co.* v. *Powdered Milk Co. of America,* 7 F. (2d) 297 (C. C. A. 2d); *National Tube Co.* v. *Mark,* 10 F. (2d) 430 (C. C. A. 6th).

In the case at bar recovery was measured by "the sum of the profits which the patentee would have derived from the sales which the infringer's course prevented the patentee from making." *Walker, Patents,* 6th Ed., Sec. 607; *Dallas Brass & Copper Co.* v. *Faries Mfg. Co.,* 1 F. (2d) 930 (C. C. A. 7th); see *Philp* v. *Nock,* 17 Wall. 460; *Farmers' Handy Wagon Co.* v. *Beaver Silo & Box Mfg. Co.,* 259 Fed. 270, 271 (C. C. A. 7th).

We have found but two cases involving the computation of damages on this basis in which the question of interest was raised. In *Rose* v. *Hirsh,* 94 Fed. 177 (C. C. A. 3d), and in *Imperial Machine & Foundry Corp.* v. *United States,* 69 C. Cls. 667, the rule in *Tilghman* v. *Proctor, supra,* was followed in computing damages upon the basis of profits lost to the owner of the patent, and interest was allowed only from the date of the filing of the master's report. There was no discussion of the question in either of these cases. Profits lost by the patent owner are in quite a different category from profits gained by the infringer. *Tilghman* v. *Proctor, supra,* merely holds that the infringer's profits are unliquidated until judicially determined, and accordingly interest runs only from the date of the master's report. Where there is a recovery of damages on the basis of profits lost by the owner of the patent, there would seem to be quite as much reason for an allowance of interest as when such damages are computed upon the basis of an estimated reasonable royalty. There is, indeed, less

certainty in determining reasonable royalties than in computing lost profits, when, as in this case, computation is based upon actual costs and established selling prices of similar machines. Accordingly, we believe that *Rose* v. *Hirsh, supra,* and *Imperial Machine & Foundry Corp.* v. *United States, supra,* are of doubtful authority, and that in this case interest should have been allowed upon profits lost to the patent owner. Such a result will accord with the decisions of this Court in *Seaboard Air Line Ry.* v. *United States,* 261 U. S. 299, *Brooks-Scanlon Corp.* v. *United States,* 265 U. S. 106, *Liggett & Myers* v. *United States,* 274 U. S. 215, and *Phelps* v. *United States,* 274 U. S. 341.

CONCLUSION

We believe that the court below erred in failing to allow interest.

Respectfully submitted.

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JANUARY, 1931.

APPENDIX

The Act of July 1, 1918, c. 114, 40 Stat. 704, 705, amending the Act of June 25, 1910, c. 423, 36 Stat. 851 (U. S. C., Title 35, Sec. 68) provides in part as follows:

> The Act entitled "An Act to provide additional protection for the owners of patents of the United States, and for other purposes," approved June twenty-fifth, nineteen hundred and ten, shall be, and the same is hereby, amended to read as follows, namely:
>
> "That whenever an invention described in and covered by a patent of the United States shall hereafter be used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, such owner's remedy shall be by suit against the United States in the Court of Claims for the recovery of his reasonable and entire compensation for such use and manufacture: *Provided, however,* That said Court of Claims shall not entertain a suit or award compensation under the provisions of this Act where the claim for compensation is based on the use or manufacture by or for the United States or any article heretofore owned, leased, used by, or in the possession of the United States: *Provided further,* That in any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement as set forth in Title Sixty of the

Revised Statutes, or otherwise: *And provided further,* That the benefits of this Act shall not inure to any patentee who, when he makes such claim, is in the employment or service of the Government of the United States, or the assignee of any such patentee; nor shall this Act apply to any device discovered or invented by such employee during the time of his employment or service."

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